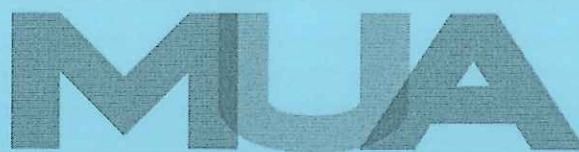


The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/ BACHELOR
OF COMMERCE

BML 108/ ACC 312: MANAGERIAL ACCOUNTING

DATE: 16TH APRIL 2018

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

- a) You have recently been approached for advice by one of your clients, Sipwap limited. The company commenced trading a year ago and manufactures one product used in the hotel sector. Sipwap limited currently does not employ a management accountant and while it has an excellent bookkeeper, the managing director is of the view that more detailed and analytical information is necessary. The managing director has asked you to explain cost-volume profit (CVP) analysis as he considers that Sipwap limited is at the stage of development to benefit from more detailed management accounting information.

Requirement:

Prepare a memorandum for the managing director of Sipwap Limited, outlining the key aspects of cost-volume-profit (CVP) analysis (10 Marks)

- b) Auto Engineering Company Limited wishes to set flexible budgets for each of its operating departments. A separate maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has determined that maintenance department performs all routine and major repair works on the company's equipment and facilities. The company has determined that maintenance cost is primarily a function of machine hours worked in the various production departments.

The maintenance cost incurred and the actual machine hours worked during the months of January, February, March and April 2003 were as follows:

Month	Machine hours in Production departments	Maintenance department's Costs (Kshs)
January	800	350
February	1,200	350
March	400	150
April	1,600	550

Required:

Determine the cost estimation function using:

- i. High-low method. (5 marks)
- ii. Regression analysis (5 marks)
- iii. Using the regression function estimate, calculate the maintenance costs that would have been incurred if the machine hours were expected to be 900 in the month of May 2003. (2 Marks)
- c) Outline the functions of a management accountant in a manufacturing concern (3 Marks)

QUESTION TWO

Mwakala Ltd is a manufacturing company which operates under uncertain environment. The Company is trying to set the selling price for one of its products and three prices are under consideration. These are Sh.4, Sh.4.30 & Sh.4.40

The following information is also provided

Alternatives

Conditions	Sh.4.00	Sh.4.30	Sh.4.40
Best possible	16,000	14,000	12,500
Most likely	14,000	12,500	12,000
Worst possible	10,000	8,000	6,000

Fixed costs = Sh. 20,000

variable cost per unit = Sh. 2

Required:

Advice the company on the best price to set using:

- i) Maximax decision rule (3 Marks)
- ii) Maximin decision rule (3 Marks)
- iii) Minimax regret rule (6 Marks)
- iv) Laplace rule (3 Marks)

QUESTION THREE

- a) Explain SIX reasons for which a budget is prepared (6 Marks)
- b) The following standard costs apply in a business that manufactures a single product.

Standard weight to produce one unit	12kgs
Standard price per kg	Sh.9
Standard hours to produce one unit	10
Standard rate per hour	Sh.4

Actual production and costs for one accounting period were as follows.

Materials used	3,770kgs
Materials costs	Sh.35,815
Hours actually worked	2,755
Hours paid for	2,900
Wages paid	Sh.11,571

The actual output was 290 units.

Required:

- i) Material cost variance (4 Marks)
- ii) Labour cost variance (5 Marks)

QUESTION FOUR

Sungu Company owns a manufacturing plant in Kenya where its marginal tax rate is 60 per cent of net income. These shirts are imported by Zambia where the marginal tax rate is 75 per cent of net income.

During the current year, the company incurred production costs equivalent to sh.2 million in Kenya. Costs incurred in Zambia aside from the costs of the shirts amounted to an equivalent of sh.6 million. Sales revenues in Zambia were sh. 24 million. Similar goods imported by independent companies in Zambia would have cost an equivalent of sh. 3 million.

Sungu Company points out that because of its special control over its operations in Kenya and the special approach it uses to manufacture its goods, the appropriate transfer price is sh. 10 million.

Required:

- a) What would Sungu Company's total tax liability in both countries be if it used the sh. 3 million transfer price? (10 Marks)
- b) What would the liability be if it used the sh. 10 million transfer price? (5 Marks)

(N/B: Assume that there are no currency controls and that tax regulations concerning the definition of taxable income are the same between the two countries.)

QUESTION FIVE

- a) What is the difference between risk and uncertainty (4 Marks)
- b) The financial director of Kanjo Electrics is considering the national launch of a new washing machine. The potential sales of the product during its lifetime are classified as being either high, medium or low and the net present value of the machine sales under each of these three conditions is estimated to be Sh.50 million, Sh.10 million, and Sh.20 million, respectively. The marketing director of Kanjo Electrics estimates that there is a 0.4 probability that sales will be high, a 0.25 probability that they will be medium and a 0.35 probability that they will be low.

Required:

- (i) Assuming the company's objective is to maximize expected net present value, determine whether or not the new product should be launched. (5 marks)
- (ii) Explain the meaning of 'expected value of perfect information' and find the expected value of perfect information for this situation. (6 marks)

QUESTION SIX

- a) Outline the properties of the standard Linear Programing form (5 Marks)
- b) State some of the applications of dynamic programing (3 Marks)
- c) Explain the uses of queuing theory in business enterprise (7 Marks)

